



THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) AND THE DIGITAL ECONOMY; MAXIMISING THE TRADE DEAL IN THE AGE OF DIGITAL ECONOMY

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Introduction

The region has had the world's fastest growth in digitalisation over the past decade, as evidenced by the increasing number of digital technology platforms and enterprises with greater digital penetration. Digital access in the continent's sub-Saharan area is expected to expand by 130 percent by 2025. The pervasiveness of the online platform, the increased use of technologies, and the growth of digital economies has reduced the traditional concept of territorial boundaries as they relate to trade. Technology has enhanced access to digital products and services across conventional boundaries, opening up opportunities in the small and medium scale enterprise and creating jobs across the continent. The rise of digital payment across the continent has resulted in a massive surge in domestic and cross-border payments. Today, digitalisation is growing as a regional technological enabler, promoting financial inclusion and acting as a stimulus for innovation in other areas such as agriculture and infrastructure.

As new technologies emerge to overcome information barriers and decreasing the cost of cross-border transfers, digital payment has created ways to expand credit availability in Africa.

Sub-Saharan Africa has surpassed the rest of the world in mobile money transfer services, facilitating wider access to financial services. Although Sub-Saharan Africa has trailed behind the rest of the world in terms of access to finance, several of the regions' countries are now worldwide leaders in mobile money adoption and usage. There are significant regional disparities, with East Africa dominating in mobile money adoption and usage. Kenya is among the most successful countries using mobile money today, thanks to a proper price plan to attract clients, effective regulation, and a dependable and trustful network. Over the last decade, Africa has had the greatest increase in internet access worldwide, rising from 2.1 percent in 2005 to 24.4 percent in 2018. However, digitalisation-related productivity improvements in critical African sectors (such as finance, education, health, retail, agriculture, and government) are expected to range between \$148 billion to \$318 billion by 2025.

The digitalisation of the African Economy will encompass establishing markets for formerly isolated rural populations as well as servicing Africa's rapidly rising consumer class. Female entrepreneurs are delving into e-business prospects using digital platforms, a total change from how previously societal conventions or family responsibilities might have kept them out of the regular labour. Intra-African commerce is a driving factor for long-term growth. It considerably decreases large and multinational corporations' marketing competitive advantage while assisting small and medium-sized firms (SMEs) to service specialised markets and establish a competitive edge locally, regionally, or globally. The declared goal of the AU is to "create a Digital Single Market in Africa by 2030. Without a doubt, the adoption of the African Continental Free Trade Area (AfCFTA) will boost the digital economy and e-commerce. The AfCFTA has arrived at a time when Africa is embracing e-commerce. This has the potential to be a powerful growth combo. The AfCFTA's goal is to promote intra-African trade among AU member states; e-commerce's goal is to market and sell. The AfCFTA attempts to lower trade obstacles; e-commerce spans continents.

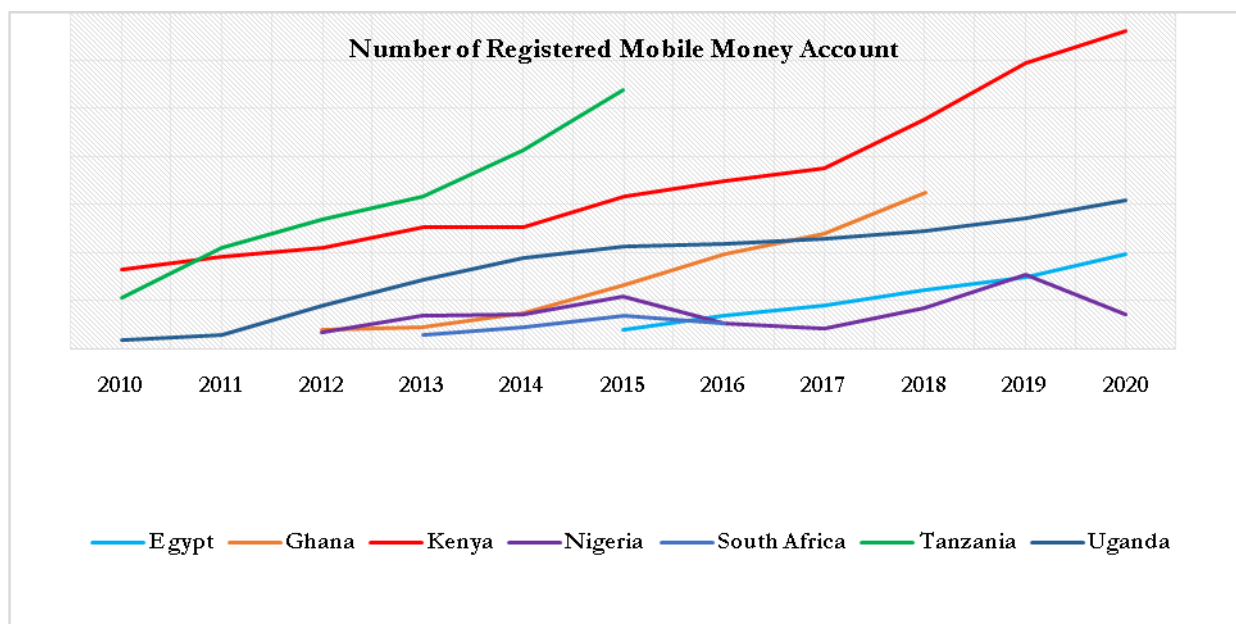
The rise of Africa's Digital Economy

Mobile Money Penetration; A New Frontier in Africa's Digital Potential

Financial digitalisation through mobile money penetration has enabled a major shift in the delivery of intra-African trade in Sub-Saharan Africa. As a result, the area has emerged as the global leader in mobile money invention, acceptance, and usage, with over 40 of the 45 Sub-Saharan African nations

actively employing this new financial technology (mobile money penetration). The digital payment system is an important component of intra-African trade, and the significant restrictions on cross-border payment in Africa make intra-African trading difficult or impossible. Many African nations, most notably South Africa, Kenya, and Nigeria, have taken the lead in innovative Fintech advancements that are challenging traditional banking and bringing previously 'unbanked' people into the mainstream economy. Mobile money has also taken off as the most cost-effective and efficient means for the unbanked to move money from one mobile phone to another. Mobile banking, as demonstrated in Kenya, has proved enormously beneficial to the national economy, enabling micro-level e-commerce trading.

The digital economy has increased competitiveness across all sectors, created opportunities for firms and entrepreneurial activity, and opened up new channels for accessing international markets and engaging in global e-value chains. It also gives new methods for addressing long-standing development issues. The African continent is expected to be ready for digitalisation, which creates economic zones rather than conventional borders.

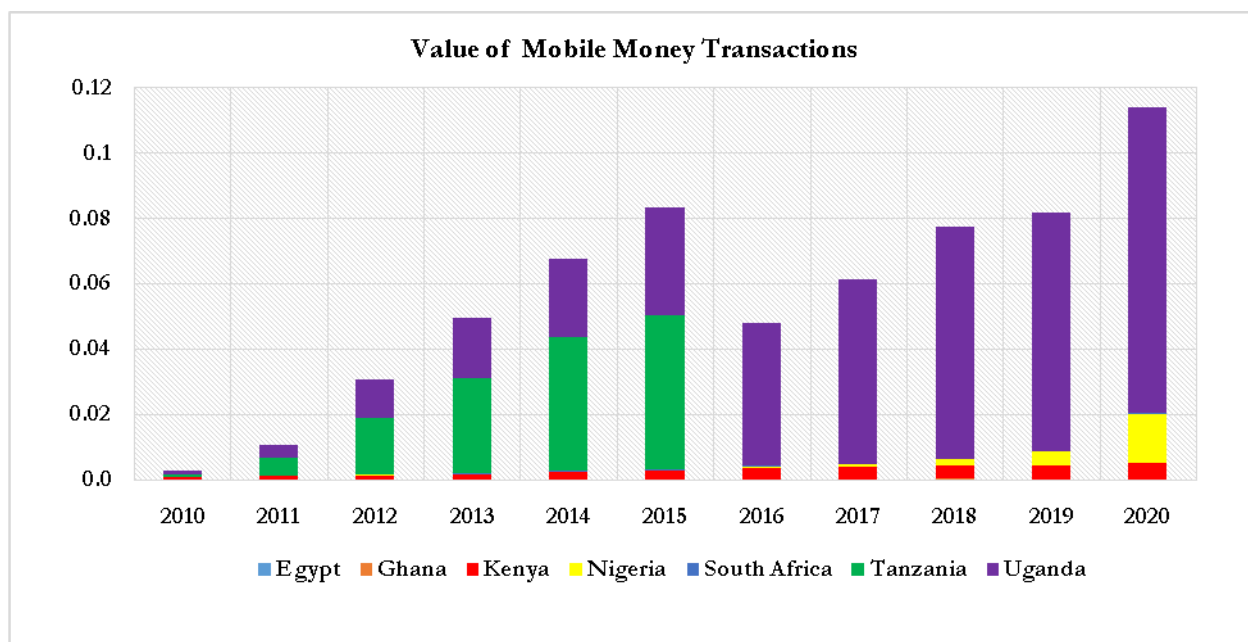


Source: IMF-Financial Access Survey, 2022

African countries are increasingly committing to the development of a digital economy. In addition, government services have been digitalised, technological hubs and clusters have grown, and more private enterprises are shifting to digital without traditional border barriers. President Kagame of Rwanda unveiled the Africa Smart Alliance Initiative. The program aims to engage over 600 million African individuals in the digital economy of the continent.

The digital economy of the continent is not as large as other geographical blocs or unions. The issue of high-cost internet access, digital incompetence, and a lack of critical facilities such as broadband, electricity, and logistics continues to stymie a continent-wide digital economy. Furthermore, a few African countries seem to be more technologically sophisticated than others, making universal adoption and modelling technically impractical and impossible in the immediate future. In some Sub-Saharan African economies, mobile money penetration has now surpassed traditional bank accounts. In 2012, there were approximately twice as many conventional deposit accounts as mobile money accounts in 17 Sub-Saharan African nations where both mobile money and traditional bank account statistics were available. In these 17 countries, which include most of the biggest in Sub-Saharan Africa, such as South Africa, Kenya, and Tanzania among others, mobile money accounts have surpassed traditional bank accounts since 2015.

The cost of cross-border payments and transfers might be greatly reduced by a potentially universal financial technology. Due to the obvious oligopolistic nature of the financial industry in Sub-Saharan Africa, low regional and financial integration, the existence of multiple currencies, and inefficient payment systems for intra-African cross-border payments, the cost of sending money transfers to Sub-Saharan Africa is the highest globally. Digitisation in payment that is adopting a cross-border payment system can lower transaction costs, which will have a favourable impact on remittance volume and regional integration.



Source: IMF-Financial Access Survey, 2022

The use of digital technology is reshaping societies and economies at an unprecedented rate and scale, offering enormous geopolitical, commercial, and economical potential while also posing significant obstacles. According to a 2018 research by the International Telecommunication Union, a 10% rise in mobile broadband access in low-income nations results in a 2% boost in GDP. In Sub-Saharan Africa, for example, a 10 percent rise in mobile broadband adoption is expected to result in a 2.5 percent rise in GDP.

The more people and things are linked in a secure and trustworthy manner, the more the continent gathers data for actionable insights, which are regarded as the most precious resource of the twenty-first century. The transition to a digital economy in Africa not only creates opportunities for economic growth and job creation, but also serves as the foundation for understanding human rights, boosting access to adequate basic services, improving government accountability and transparency, and strengthening democracy. For example, the introduction of mobile money, pioneered by Kenya's Safaricom with the M-PESA brand, has resulted in considerable financial inclusion for many (which was not previously the case). Mobile phone services currently account for 5.7 percent of the continent's GDP and are expected to grow to 8 percent by 2020. This economic expansion is supported by strong mobile penetration rates of 90%. Reduced smartphone and broadband prices have increased penetration and access.

These nations' youth bulges indicate that they have a critical mass of young people who are creatively exploiting the mobile web platform to address commercial and societal challenges, some of whom may become global role models. Just as big tech giant, Alibaba, emerged from Asia in the twentieth century and asigaame.com from Ghana becoming a fast emerging e-commerce platform in Ghana for South of the Saharan, it would not be surprising if the twenty-first century's next titan emerged from Africa.

Digitalisation will provide an essential channel for African nations to accelerate not only financial growth but also progress across other areas of the economy in 2018 and beyond. On the digital platform, there are limitless prospects, and fintechs are working around the clock to create and market new products. These improvements, however, will favour only those countries that embrace digitalisation, invest in the necessary infrastructure, and implement appropriate regulatory systems.

Payment System Statistics in Ghana 2012-2020 (Value in Million GHC)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ghana Interbank Settlement (RTGS)	331,320.90	470,375.10	58,312.16	1,032,544.00	1,670,369.46	2,083,846.27	1,963,465.27	2,106,117.85	2,433,537.47
Cheque Cleared	69,222.07	81,144.33	113,698.39	131,189.70	152,390.42	179,555.47	203,465.32	173,623.25	177,625
Automated Clearing House -Direct Credit	3,690.04	6,332.71	10,815.21	15,075.07	19,245.65	24,327.26	30,226.94	7,662.89	6,123.26
Automated Clearing House -Direct Debit	-	22.81	31.48	70.91	127.01	126.28	139.15	239.64	1,130.69
E-Zwich Transactions (Biometric Payment Card)	217.80	217.20	272.70	922.90	2,362.96	3,431.49	5,651.14	6,308.37	9,033.25
National Switch (Gh-link)	1.10	67.50	183.32	305.14	447.04	603.43	543.74	329.23	329.7
GhIPSS Instant Pay (GIP)	-	-	-	-	-	83.23	534.04	3,456.89	9,146.76
Mobile Money Interoperability	-	-	-	-	-	-	212.89	-	-
Mobile Money	594.12	2,652.47	12,123.89	35,444.38	78,508.90	155,844.84	223,207.23	309,352.25	564,155.90

Source: BoG 2020

Integrating Digitalisation into the AfCFTA- New Tool for New Age

Digitalisation has transformed Africa's trade systems and infrastructure. By embracing digital intra-African and centralising payments, economies save billions of dollars each year. Digitalised intra-African systems reduce transaction costs in terms of time, travel, and even unit prices. Indeed, this change affects the affluent and the poor, the underserved and the unserved, as well as formal and informal companies. Currently, intra-African trade accounts for around 18% of the continent's total trade. In Asia, intra-regional commerce accounts for 59% of total trade, whereas in Europe, it accounts for 69%.

Both products and services trade will continue to be impacted by digitalisation and the attendant economic transformations. Global value chains and micro-multinationals are being enabled by digitalisation, as well as new tradeable goods and services. When it comes to actual commodities, digitalisation can save time, improve accuracy, and make border crossings more frictionless. Digitalised single windows, blockchain-based commerce and trade finance paperwork, QR code scanning, and geo-locating gadgets are just a few examples.

COMESA's digitalised trade agreement is one regional initiative to digitalise customs and border operations, including encouraging and establishing legally acceptable e-signatures, e-certificates of origin (based on blockchain), and single windows. Customs and other revenue collection can also be aided by digitalisation, such as automated revenue collection.

Because it generates great potential for cross-border e-commerce, Africa's Continental Free Trade Area will have a favourable impact on the digital trade sector. The quantity and quality of supply vary greatly between countries, creating a plethora of market potential for internet entrepreneurs. To facilitate cross-border trade, e-commerce platforms can also help with logistics and payment solutions. E-payments are a critical enabler of trade in general and particularly small-scale trade. The AfCFTA should also include agreements to ensure unfettered cross-border data flow, as cross-border trade in the digital economy is difficult without it. For example, not only physical but also digital components must be able to quickly cross borders in regional and global value chains, especially as manufacturing gets more complex.

Digitalisation is also essential for the African Continental Free Trade Area to reach its full potential (AfCFTA). Significant improvements in Africa's digital infrastructure, as well as a focus on legislation that safeguard and enhances digital trade, are required to strengthen the capacity of African enterprises and entrepreneurs to trade easily within Africa's borders and access a worldwide marketplace. Investments in digitalisation can also be made through public-private partnerships, which recognise the multiplier effects of such an investment. Digitalisation, when combined with the AfCFTA, has the potential to drastically reduce inequality by making it easier to reach even the most disadvantaged and vulnerable people.

The retail payment system and infrastructure has been transformed by digitalisation. Using electronic payments and centralising them saves economies billions of dollars every year. One of the first beneficiaries of mobile-phone-based payments and transactions systems is the retail payments infrastructure.

Electronic payment solutions save money in terms of time, travel, and even unit expenses. Rich and poor, underserved and unserved, and formal and informal companies are all affected by this change.

Conclusion

There is an urgent need for digital infrastructure that will enable the Free Trade Area to address the kind of scale for a billion people on the continent. An efficient digital economy can only be accomplished when the government and other stakeholders drive policies and solve basic infrastructural problems that can ease and drive down the cost and ease of doing business, strengthening digital infrastructure, promoting digital literacy, and making affordable high-speed digital technologies. It is important to note that digitalisation is the lifeblood of business in the digital economy.

Digitalisation is crucial to facilitating intra-continental trade, and consequently vital to the successful implementation of the AfCFTA. The lack of a common framework will continue to hinder the integration and optimisation of the imminent benefit of the trade agreement. The continent cannot afford to miss out on the immense prospect of a continental digital market and harnessing a global digital economy.

African leaders must see the nexus between digitalisation and trade. A comprehensive digital development strategy should address investment in digital infrastructure, complex cross-border internet regulatory concerns, bridge the digital divide and inclusion, and curtail prospective undesirable social and development effects. Beyond a digitalised framework, the success of the AfCFTA will be hinged on policies around addressing e-transaction and consumer protection, content restrictions and censorship laws, Intellectual property protection, Intermediary liability, and competition. The implementation will see multi-national companies adopt a digitalised global trade with ease, trade more with Africa without fear of inadequate protection, and increase the intra-continental trade volume. A proper harmonisation of data protection and AfCFTA would create opportunities and a sustainable path for Africa's youthful and growing population. African governments will build digital businesses products and models not just for the continental market, but equally to expand and seek a global competitive advantage.

Recommendations

The influence of digitalisation and the economic transformations of trade will continue to be significant. Multinational value chains and micro-multinationals are being enabled by digitalisation, as well as new tradeable goods and services. It is obfuscating the distinction between commodities and services, as well as the distinction between jurisdictions.

While the private sector will drive digital economic progress, trade policy decisions made by governments will have an impact. Domestically and through the African Continental Free Trade Area (AfCFTA) accord, African policymakers can stimulate digital trade and the development of the digital economy. The underlying infrastructure, such as energy and telecommunications, is critical to the growth of the digital economy. The digital economy cannot thrive without solid foundations.

Liberalising trade in these services will allow new players to enter the market and increase competition.

The AfCFTA should also include accurate and convincing promises to ensure the unfettered cross-border flow of information, as cross-border trade in the digital economy is difficult without it. For example, not only physical but also digital components must be able to quickly cross borders in regional and global value chains, especially as manufacturing gets more complex. Other services could be liberalised and regulatory restrictions reduced to facilitate and encourage trade.

It's also critical to identify and support people whom the digital economy has the potential to leave behind on a national level. Policymakers must discover measures to limit the developments' harmful consequences. Although trade regulations are unlikely to impact the economy's inevitable digitalisation, new opportunities offered by digital commerce, such as those in cross-border services, may provide fresh options for those who have been displaced by digital innovations. This will necessitate government initiatives based on evidence, as well as a commitment to reskilling.

The government will need to help local entrepreneurs build new business models by supporting the development of innovation centres. The Government of Ghana's flagship program, You-Start Initiative, is a good example of expanding e-government services and policies to make things like crowd funding more accessible.